ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Academy of Dayton Community School
Montgomery County
4095 Little Richmond Road
Dayton, Ohio 45427

To the Governing Board:

We have audited the accompanying basic financial statements of the Academy of Dayton Community School, Montgomery County (the Academy), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As shown in the accompanying financial statements, the Academy has incurred a working capital deficiency of $1,096,102, an operating loss of $236,391, and an accumulated deficit of $784,543, that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 11, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2007
(UNAUDITED)

This section of the Academy of Dayton's (the Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy of Dayton financially as a whole.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements
Statement of Net Assets
Statement of Revenues, Expenses and Change in Accumulated Deficit
Statement of Cash Flows

Notes to the Financial Statements

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and changes in accumulated deficit which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of revenues, expenses and changes in accumulated deficit – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of revenues, expenses and changes in accumulated deficit report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services and food services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a summary of The Academy's net assets as of June 30, 2007

Table 1
Net Assets

	2007 (in thousands)	2006 (in thousands)
Assets		
Current and other assets	$ 260.0	$ 289.2
Capital assets, net of accumulated depreciation	311.6	341.0
Total assets	571.6	630.2
Liabilities		
Current liabilities	1,356.1	1,352.8
Net Assets		
Invested in Capital Assets – Net of related debt	311.6	341.0
Unrestricted	(1,096.1)	(1,063.6)
Total Net Assets (Deficit)	($ 784.5)	($722.6)

Net Assets – The Academy's net assets decreased over the previous year – the decrease in net assets was $61,939. The Academy's net assets are in a deficit position.

The Academy's deteriorating financial position is primarily a result of low student enrollment.

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's activities is discussed below. The Academy's net deficit, as of June 30, 2007, was $784,543. Capital assets recorded at historical cost, net of depreciation, totaled $311,559. No long-term debt was used to finance the acquisition of those assets. The Academy does not have any restricted net assets. The remaining amount of net assets (deficit) of ($1,096,102) was unrestricted.

The ($1,096,102) in unrestricted net assets (deficit) represents the accumulated results of the past years' operations. Since the unrestricted net assets balance is in a deficit, the Academy has difficulty meeting its working capital and cash flow requirements. The liabilities of the Academy are financed through a balance owed to the management company. The operating results of the Academy will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets (deficit) for fiscal year 2007.

Table 2
Change In Net Assets

	2007 (in thousands)	2006 (in thousands)
Operating Revenues		
Foundation	$617.5	$1,084.7
Other	1.0	1.2
Non-Operating Revenues		
Grants-State	8.1	2.9
Grants-Federal	166.4	268.6
Total Revenues	793.0	1,357.4
Operating Expenses		
Salaries	345.0	503.5
Fringe Benefits	65.4	101.4
Payroll Taxes	16.6	28.1
Purchased Services	344.5	957.0
Materials and Supplies	53.3	32.7
Depreciation	30.1	30.7
Total Expenses	854.9	1,653.4
Increase (Decrease) in Net Assets	(61.9)	(296.0)
Net Assets(Deficit), beginning of year	(722.6)	(426.6)
Net Assets(Deficit), end of year	($ 784.5)	($ 722.6)

As reported in the statement of activities, the cost of all of our activities this year was $854,949. Certain activities were partially funded by those who benefited from the programs, or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefits" portion of our activities with $617,518 in state foundation allowance.

The Academy experienced a decrease in net assets of $61,939. Key reason for the change in net assets was decreased student enrollment.

Budgetary Highlights

Community Schools must adopt a spending plan as set forth in the Ohio Revised Code 5705.391, which requires annual appropriations and annual revenue estimates.

Capital Assets and Debt Administration

As of June 30, 2007, the Academy had $311,559 invested in capital assets, including leasehold improvements, furniture and equipment. This amount represents a net decrease, including additions and disposals, of $29,406.

Capital Assets	2007 (in thousands)	2006 (in thousands)
Leasehold improvements	$333.8	$333.8
Furniture and equipment	116.2	115.6
Sub-Total	450.0	449.4
Less: Accumulated Depreciation	(138.5)	(108.4)
Capital Assets, net	$311.5	$341.0

This year's additions of $706 included furniture and equipment. No debt was issued for these additions.

No major capital projects are planned for the near future. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy did not have any outstanding debt other than normal trade payables and payables to the management company, which are recorded on an accrual basis.

Other obligations include accrued salaries, benefits, and vacation pay. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our administration considers many factors when setting the Academy's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined based on the student count and the foundation allowance per pupil. The 2008 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 78 percent of the revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on current enrollment data at the start of the 2007-08 school year, we anticipate that the fall student count will be below the estimates used in creating the 2008 budget. Once the final student count and related per pupil funding is validated, the Academy will amend the budget if actual Academy resources are not sufficient to fund the original appropriation.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The impact on the Academy of the State's projected revenue is not known.

Contacting the Academy's Financial Management

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to reflect the Academy's accountability for the funds it receives. Questions concerning any of the information in this report should be directed to:

Andrew Burks, Fiscal Officer
Academy of Dayton Community School
c/o Charter School Administration Services, Inc.
20755 Greenfield Rd, Suite 300,
Southfield, MI 48075

ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2007

Current Assets	
Cash	($4,745)
Intergovernmental Receivable	136,323
Other Receivable	127,590
Prepaid Expenses	917
Total Current Assets	$260,085
Noncurrent Assets	
Capital Assets (Net of Accumulated Depreciation)	311,559
Total Assets	571,644
Liabilities	
Current Liabilities	
Accounts Payable	1,349,956
Accrued Wages and Benefits	6,231
Total Liabilities	1,356,187
Net Assets	
Invested in Capital Assets	311,559
Unrestricted (Deficit)	(1,096,102)
Total Net Assets/(Accumulated Deficit)	($784,543)

The notes to the financial statements are an integral part of this statement.

ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2007

Operating Revenues	
Foundation Payments	$617,518
Other	1,040
Total Operating Revenue	618,558
Operating Expenses	
Salaries	345,027
Fringe Benefits	65,406
Payroll Taxes	16,629
Purchased Services	344,522
Materials and Supplies	53,253
Depreciation	30,112
Total Operating Expenses	854,949
Operating Loss	(236,391)
Non-Operating Revenues	
Grants - State	8,087
Grants - Federal	166,365
Total Non-Operating Revenues	174,452
Change in Net Assets	(61,939)
Accumulated Deficit, Beginning of Year	(722,604)
Accumulated Deficit, End of Year	($784,543)

The notes to the financial statements are an integral part of this statement.

ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

Cash Flow from Operating Activities	
Cash Received from State Foundation	$560,035
Cash Received from Other	1,040
Cash Payments to Suppliers for Goods and Services	(459,264)
Cash Payments to Employees for Services	(340,649)
Cash Payments for Employees Benefits	(91,613)
Net Cash Used for Operating Activities	(330,451)
Cash Flows from Noncapital Financing Activities	
Grants Received - State	8,087
Grants Received - Federal	167,806
Net Cash Provided for Noncapital Financing Activities	175,893
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(706)
Net Increase in Cash	(155,264)
Cash, Beginning of Year	150,519
Cash, End of Year	(4,745)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating Loss	(236,391)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	30,112
Changes in Assets and Liabilities	
Increase in Accounts Receivable	(127,571)
Increase in Accounts Payable	66,082
Decrease in Intergovernmental Payable	(57,483)
Decrease in Accrued Wages and Benefits	(5,200)
Total Adjustments	(94,060)
Net Cash Used for Operating Activities	($330,451)

The notes to the financial statements are an integral part of this statement.

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Academy of Dayton (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702. The Academy's objective is to prepare all students to be successful citizens, cooperative workers and profitable entrepreneurs by developing their unique potential. The program is offered for students in kindergarten through third grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed, and contract for any services necessary for the operation of the school.

The Academy was approved for operation under contract with the Ashe Cultural Center, Inc. (Sponsor) for a three year period commencing on June 30, 2006 through April 14, 2009. The Academy became operational during July of 2000. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a self-appointing five-member Board of Trustees (the Board). The Academy's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Academy has one instructional/support facility staffed by a principal, 7 full-time certified teaching personnel and 4 non-certified support personnel who provide services to an enrollment of approximately 84 students.

The Board has entered into a management contract with Charter School Administration Services, Inc. (CSAS), to provide consulting services including teacher training, curriculum development, financial management, and State relations. (See Notes 9 and 13)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. In accordance with GASB Statement No. 33, after fiscal year 2000, capital contributions from other governments and private sources are recorded as non-operating revenues and reported as retained earnings. The operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Community Schools must adopt a spending plan as set forth in the Ohio Revised Code 5705.391, which requires annual appropriations and annual revenue estimates.

D. Cash

The Academy's management company, Charter School Administration Services, Inc. (CSAS), which serves as the Academy's fiscal agent, accounts for all monies received by the Academy. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name. Monies for all funds of the Academy are maintained in this account. (See Note 3)

E. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of five years. Leasehold improvements are depreciated over the estimated useful life of 39.5 years.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Poverty Based Assistance (PBA). These programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when resources are required to be used and the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2007, including:

Accrued Wages and Benefits Payable - salary payments made after year-end that were for services rendered in fiscal year 2007. Certain teaching personnel are paid year round; however, payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2007 for all salary payments made to teaching personnel during the summer of 2007.

3. DEPOSITS AND INVESTMENTS

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Academy's deposits was ($4,745) and the bank balance was $43,533. The entire bank balance was covered by Federal Depository Insurance Corporation, which insures up to $100,000 of deposits. The Academy has no deposit policy for custodial credit risk.

B. Investments

During the fiscal year ended June 30, 2007, the Academy had no investments. The Academy has no investment policy that addresses any restriction on investments relating to interest rate, credit, or custodial credit risks.

4. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2007 consist of Federal and State grant programs:

Grant	Amount
Title I	$ 65,469
Title II part A	9,502
Title II part D	4,308
Title IV	4,390
Title V	686
Federal Breakfast and Lunch Program	6,023
21st Century	45,945
Total Intergovernmental Receivable	$136,323

5. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2007, follows:

Capital Assets, being depreciated:	Balance 07/01/06	Additions	Deletions	Balance 06/30/07
Leasehold Improvements	$333,770	$ 0	$0	$333,770
Furniture and Equipment	115,559	706	0	116,265
Sub-Total	449,329	706	0	450,035
Less: Accumulated Depreciation	(108,364)	(30,112)	0	(138,476)
Capital Assets, Net	$340,965	($29,406)	$0	$311,559

6. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2007, the Academy contracted with Employers Mutual Casualty Company for property and general liability insurance.

Professional liability is protected by Employers Mutual Casualty Company with a $1,000,000 single occurrence limit and $2,000,000 aggregate and no deductible.

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

B. Worker's Compensation

The Academy pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical, Dental, Vision, Prescription, and Life Benefits

The Academy has contracted with private carriers to provide employee medical, dental vision, prescription, and life benefits to its full time employees who work 40 or more hours per week.

7. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

7. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $9,082, $14,428 and $14,042 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were $38,609, $58,106, and $59,966 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were $32,853 made by the Academy and $23,466 made by the plan members.

8. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $2,756 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

8. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $2,154.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

9. AGREEMENTS WITH CHARTER SCHOOL ADMINISTRATION SERVICES, INC.

The Academy originally entered into a two-year contract, effective July 1, 2004 through June 30, 2006, with Charter School Administration Services, Inc. (CSAS) for educational management services. The contract was extended through April 14, 2009. This agreement automatically renews for an additional term of one year and from year to year thereafter unless written notice of intent to terminate or renegotiate is given by either party. In exchange for its services, CSAS receives a management fee equal to 12% of all revenue sources and is reimbursed for all costs incurred on behalf of the Academy. Terms of the contract require CSAS to provide the following:

a. Providing the support necessary for the provision of educational services to students and the management, operation, and maintenance of the Academy.

b. Implementation and administration of the Educational Program, including the selection and acquisition of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs.

c. All personnel functions, including professional development for the Academy Administrator, all instructional personnel, and support staff.

d. Control, maintenance, and operation of the school building, and the installation of technology integral to the school design.

e. All aspects of the business administration of the Academy.

f. Transportation and food service for the Academy.

g. A projected annual budget prior to each school year.

h. Detailed statements of all revenues received, from whatever source, and detailed statements of all direct expenditures for services rendered to or on behalf of the Academy, whether incurred on-site or off-site, upon request.

9. AGREEMENTS WITH CHARTER SCHOOL ADMINISTRATION SERVICES, INC. (Continued)

i. Provide support for annual audits in compliance with state law and regulations, showing the manner in which funds are spent at the Academy.

j. Reports on Academy operations, finances, and student performance, upon request, but not less frequently than four times per year.

k. Any other function necessary or expedient for the administration of the Academy.

For the year ended June 30, 2007, the Academy incurred management company fees of $0. All fees were waived in an effort to eliminate the Academy's net asset deficit.

10. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claim will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The fiscal year 2007 FTE adjustment resulted in $2,290 due to the Academy as a result of the enrollment data review. Due to the amount being immaterial, the 2006 adjustment amount is not included in the financial statements.

C. Litigation

1. Ohio's Community school's program

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

11. OPERATING LEASE

The Academy entered into a lease for the period August 1, 2002, through July 31, 2006, with Education Real Estate, Inc. for a larger facility. The lease was extended through June 30, 2009. The lease calls for monthly payments of $11,280 per month for the period of the lease. A holdover provision allows the Academy to continue the terms of the current lease on a month-to-month basis at the conclusion of the lease provision. The Academy subordinated its interest in the lease to a mortgage held by Education Real Estate, Inc.'s bank. For fiscal year 2007, the Management Co., Charter School Administrative Services (CSAS), waived rent expense for 2007 and reimbursed the Academy $127,590 on October 29, 2007 for rent paid. Rent payments were waived in an effort to reduce the Academy's net asset deficit.

The Academy has also entered into leases commencing October 4, 2005 and February 1, 2006 for a term of 36 months for copiers. Payment made during the year 2007 totaled $9,168. The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2007:

Year ending June 30	Facility Rental	Copiers
2008	135,360	9,168
2009	135,360	3,432
Future minimum payments	$270,720	$12,600

12. RELATED PARTIES

One of the board members of the Academy is also a board members of the Academy of Cleveland and the Academy of Business and Technology. Members of the Board of Trustees are not compensated.

The Academy entered into a lease for the period August 1, 2002, through July 31, 2006, with Education Real Estate, Inc. for a larger facility (See Note 11). Education Real Estate, Inc. is the real estate company of Charter School Administration Services, Inc. (CSAS) the Academy's management company. Total lease payments for the year ended June 30, 2007 to Education Real Estate, Inc. were $127,590, however, (CSAS), the Management Company, subsequently waived these fees for rent as discussed in Note 11.

Overhead fees and management company fees earned by CSAS, were $61,506 and $77,425 respectively. Both the overhead and management fees were waived by CSAS in an effort to eliminate the Academy's net asset deficit.

13. CONSORTIUM AGREEMENT

On August 23, 2000, the Board of Trustees approved joining a consortium with nineteen other charter schools and public school academies, each of which is managed by Charter School Administration Services, Inc. (CSAS) under management agreements comparable to the management agreement between the Academy and CSAS (See Note 9). The Members of the consortium including the Academy are:

13. CONSORTIUM AGREEMENT (Continued)

Academy	State of Operation
Academy of Business and Technology	Ohio
Academy of Cleveland	Ohio
Academy of Kansas City Charter School	Missouri
Academy of Arizona	Arizona
Beaumont Charter Academy	Texas
Academy of Dallas	Texas
Bexar County Academy	Texas
Academy of Lithonia	Georgia
Academy of Detroit West	Michigan
Academy of Oak Park	Michigan
Academy of Michigan	Michigan
Academy of Southfield	Michigan
Academy of Lathrup Village	Michigan
Academy of Flint	Michigan
Academy of Inkster	Michigan
Academy of Warren	Michigan
Academy of Waterford	Michigan
Academy of Westland	Michigan
Cherry Hill School of Performing Arts	Michigan

The Management Agreement between the Academy and CSAS provides for the allocation of indirect costs incurred by CSAS on behalf of the Academy and the other members of the consortium. Based upon the count of students at the Academy and the other members of the consortium as of September 2000, and the experiences of CSAS in both incurring costs for the consortium members and allocation of such costs to consortium members, the Academy and CSAS has agreed upon an equitable method of such allocation. Based upon the student count, the Academy shall pay CSAS, for all indirect reimbursable expenses incurred by CSAS on behalf of the Academy and other members of the consortium, for the 2006-2007 school year, in an amount equal to $67 per month per student enrolled at the Academy. CSAS waived all indirect reimbursable expenses for 2007 in an effort to eliminate the Academy's net asset deficit. (See Note 12)

14. OTHER PURCHASED SERVICES

During the year ended June 30, 2007, other purchased service expenses for services rendered by various vendors were as follows:

Advertising	$ 19,719
Audit Fees	11,946
Equipment Leases	12,999
Food Service	34,954
Insurance	18,328
Legal	10,619
Maintenance and Repairs	23,436
Management Fees	16,801
Meetings and Conferences	18,315
Professional and Technical Services	141,598
Telephone	10,673
Utilities	21,656
Other	3,478
	$344,522

15. TAX EXEMPT STATUS

The Academy has not filed for tax exempt status under § 501(c)(3) of the Internal Revenue Code, however the Academy is in the process of filing the required documents and has retained counsel to prepare and handle the required filings. The Academy has not filed tax returns for fiscal years 2001 through 2007 and the Academy has made no provision for any potential future tax liability which could result from not obtaining the § 501(c)(3) tax exempt status.

16. MANAGEMENT'S PLANS REGARDING CONTINUED EXISTENCE

As shown in the accompanying financial statements, the Academy had an accumulated deficit of \$784,543 as of June 30, 2007, which is primarily due to accounts payable of \$1,349,956 of which \$1,265,059 was over 90 days old.

The Academy's long range plans are to seek increased enrollment.

17. CONTINGENT LIABILITIES

The Academy is a defendant in a lawsuit. Although management cannot presently determine the outcome of the suit, they believe the resolution of this matter will not materially adversely affect the Academy's financial condition.

18. NONCOMPLIANCE

The Academy did not comply with requirements regarding Trustee meetings, tax exempt status (Note 15), fiscal officer license or continued education, five year projections or sponsor review of financial records.

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Academy of Dayton Community School
Montgomery County
4095 Little Richmond Road
Dayton, Ohio 45427

To the Governing Board:

We have audited the financial statements of the business-type activities of the Academy of Dayton Community School, Montgomery County, (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 11, 2008, wherein we noted that the Academy has incurred an accumulated deficit, that raises substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Academy's management in a separate letter dated January 11, 2008.

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Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items: 2007-001 through 2007-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated January 11, 2008.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Governing Board, and the Community School's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 11, 2008

SCHEDULE OF FINDINGS
JUNE 30, 2007

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2007-001

Non-Compliance

The Code of Regulations of Academy of Dayton, Article V, Board of Trustees – Section 7 Meetings required that "the Board of Trustees shall hold an annual meeting and at least five regular meetings each year." The Board only met three times during the 2007 school year. Additionally, the Board did not hold an annual meeting. It is the Board's responsibility to meet all the requirements outlined in the Code of Regulations as well as to monitor the financial activity of the Academy on a regular basis. Failure to follow the Code weakens the Board's ability to meet it's objectives as outlined in the Code of Regulations as well as to adequately monitor the Academy's financial position.

Officials Response*: The Board will amend its meeting schedule to comply with the Code of Regulations and will hold an annual meeting and at least five regular meetings during the school year.*

FINDING NUMBER 2007-002

Non-Compliance

Contract for Start-Up Community School Section B.1. and Charter School Administration Services, Inc. Contract Article III requires the Academy to apply and qualify as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and Ohio Rev. Code Section 1702.01.

The Academy had not applied for tax exempt status under Section 501(c)(3) of the Internal Revenue Service Code. Since the Academy had not filed for such status, the net income may be subject to taxation by the Internal Revenue Service. Additionally, the Academy did not file any tax returns.

In accordance with the above contract, the Academy should consider applying for tax exempt status under section 501(c)(3) of the Internal Revenue Service Code. Additionally, the Academy should consult with qualified tax counsel to determine necessary tax filings with the Internal Revenue Service.

Officials Response*: The Academy is in the process of seeking tax exempt status with the IRS under Section 501(c)(3) of the Internal Revenue Code.*

FINDING NUMBER 2007-003

Non-Compliance

Ohio Rev. Code Sections 3314.011 requires that prior to assuming the duties of fiscal officer, the fiscal officer shall be licensed under **Ohio Rev. Code Section 3301.074** or shall complete not less than sixteen hours of continuing education classes, courses or workshops in the area of school accounting as approved by the sponsor of the community school.

In each subsequent year, any fiscal officer not licensed under Ohio Rev. Code Section 3301.074 shall complete eight hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the school.

FINDING NUMBER 2007-003
(Continued)

The Chief Financial Officer did not hold a license under the abovementioned section of code and did not complete the required hours of continuing education in Fiscal Year 2007. The Academy should develop and implement procedures to provide that the Chief Financial Officer is either licensed or completes the appropriate number of continuing education hours.

***Officials Response**: The Academy will ensure that one of its top fiscal officers will obtain the necessary licensure or will complete the necessary continuing education.*

FINDING NUMBER 2007-004

Non-Compliance

Ohio Rev. Code Section 5705.391 states in part, that the Academy shall prepare 5 year projections of operational revenues and expenditures as part of their spending plans. An independent auditor is expected to evaluate whether the projections for the current period are reasonably supported. The Academy's revenue projections (and associated expenditures) that were filed with the Ohio Department of Education compared to the actual activity for the current period were significantly overstated, mainly due to overestimating the amount to be received from the State for school foundation payments. The Academy should evaluate their projections and revise the five year budget to more accurately reflect the current activity of the Academy.

***Officials Response**: The Academy will revise its projections to encompass a number of factors including: current Academy activity as well as expected increases in student enrollment from its marketing initiative over the next several years.*

FINDING NUMBER 2007-005

Non-Compliance

Ohio Rev. Code Section 3314.023 requires that a representative of the sponsor shall meet with the governing authority of the school and shall review the financial records of the school at least once every two months. The Academy's sponsor, The Ashe Culture Center, Inc. did not meet with or review the Academy's financial records as required in fiscal year 2007. The Governing Board should develop and implement procedures so that the sponsor has access to the required information at least bi-monthly.

***Officials Response**: We did not receive a response from Officials to this finding.*

ACADEMY OF DAYTON COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Accumulated Deficit	No	Finding No Longer Valid – Under SAS 112 this issue no longer results in a finding.
2006-002	Failure to file for tax exempt status under section 501(c)(3) of the Internal Revenue Code	No	Not Corrected – Repeated as finding 2007-002.

Mary Taylor, CPA
Auditor of State

ACADEMY OF DAYTON COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 6, 2008

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